PHILIPPINES ECONOMIC WRAP-UP

MAY 19 - 25, 2001

Summary

In addition to our regular comments on forex, credit and equity markets, this week we also report on the government's continuing 'success' in keeping the fiscal deficit in check (by strangling spending rather than meeting revenue targets). The Philippines, unable to meet loan conditions (particularly legislative changes), will cancel the remaining $200 million tranche of a World Bank "Banking Sector Reform Loan." Non-performing loans of Philippine commercial banks hit a new high of 16.7% in March. Finally, we report on the continuing saga of Philippine National Bank.

These weekly reviews are available on the Embassy's web site (http://usembassy.state.gov/manila). We provide a longer and more detailed review of the Philippine economy in our February 2001 Economic Outlook, which is now available on our web site. The next edition of the Outlook will be released in early June.

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Market and Policy Developments

FOREX REPORT

The Philippine peso depreciated sharply early in the week on corporate demand, to reach P51.50/US$. However, it recovered somewhat later in the week and overall softened slightly from its May 18 close on P50.33/US$. On May 25, the peso last traded at P50.505/US$.

Exchange Rate Tables

Date	Weighted Average (Pesos/US$)	Closing (Pesos/US$)	Volume (Million US$)
APR 16	50.086	50.200	99.3
17	50.238	50.300	105.3
18	50.173	50.110	162.0
19	50.054	50.060	136.5
20	50.218	50.280	141.1
APR 23	50.441	50.480	145.5
24	50.437	50.415	105.0
25	50.546	50.550	116.2
26	50.764	51.000	132.4
27	51.218	50.870	152.2
APR 30	51.339	51.450	170.9
MAY 01	Markets Closed		
02	51.001	50.730	167.5
03	50.459	50.280	149.2
04	50.349	50.380	81.3
MAY 07	50.504	50.440	59.0
08	50.477	50.460	76.5
09	50.482	50.650	120.5
10	50.624	50.590	137.0
11	50.487	50.300	117.5
MAY 14	Markets Closed		
15	50.321	50.180	131.1
16	50.136	50.140	127.5
17	50.162	50.260	111.1
18	50.342	50.330	132.5
MAY 21	50.609	50.840	148.3

22	50.789	50.645	124.2
23	50.438	50.300	184.0
24	50.287	50.340	168.0
25	50.449	50.505	106.5

Source: Bankers Association of the Philippines

CREDIT MARKET REPORT

Banks and traders tried to further steepen the yield curve, and succeeded in driving up the interest rate on 364-day bills at the May 21 T-bill auction. The rate only increased 0.2 basis points to 11.352%, however. Rates on shorter term bills declined on fairly robust demand; over P8.8 billion worth of offers were received for the P4 billion worth of bills scheduled for sale. The interest rate on the 91-day bill shed 20.7 basis points to 9.306%, and the interest rate on the 182-day bill dropped 16 basis points to 10.75%.

National Treasurer Sergio Edeza said traders were trying to drive up rates on the 1-year T-bills in order to earn better returns at the May 22 auction of 5-year Treasury bonds. As a result, the Treasury bureau rejected most of the bids for the 5-year bonds, which were last auctioned on February 20. P4 billion worth of bonds were slated for sale, but only P1 billion worth of bids were accepted. The interest rate on the 5-year bond fell from 14.0% on February 20 to 14.0%.

Domestic Interest Rates (in percent)

Treasury Bills

Auction Date	91 days	182 days	364 days
APR 16	10.027	no sales	no sales
APR 23	9.855	10.959	11.368
APR 30	10.102	11.324	11.725
MAY 07	no sales	no sales	no sales

MAY 15	9.513	10.915	11.350
MAY 21	9.306	10.750	11.352

Source: Bureau of the Treasury

Prime Lending Rates of 14 Expanded Commercial Banks

Date of Survey	Average	Range
APR 19	13.4611	11.00 - 15.027
APR 23	13.3529	10.75 – 14.855
MAY 03	13.4683	11.25 – 15.102
MAY 10	13.4861	11.25 – 15.012
MAY 17	13.2171	10.75 – 14.513
MAY 24	13.1013	10.75 - 14.50

Sources: Bangko Sentral ng Pilipinas; Press reports

STOCK MARKET REPORT

The Philippine Stock Index (PHISIX) shed about 2.65% from its close of 1448.62 on May 18 to close on May 25 at 1410.23. Trading was marginally more active on Friday, with brokers reporting net foreign buying on bargain hunting. Overall market sentiment remains sluggish, however, as investors await more definitive information on the future political direction of the country after May 14 national elections.

Philippine Stock Exchange Index (PHISIX) and Value of Shares Traded

Date	PHISIX Close	Value (Million pesos)
APR 16	1453.84	236
17	1435.68	271
18	1425.97	507
19	1428.87	614
20	1428.54	411
APR 23	1437.16	259

24	1444.00	304
25	1462.18	431
26	1437.50	302
27	1420.36	398
APR 30	1378.84	446
MAY 01	Markets Closed	
02	1435.88	765
03	1430.39	376
04	1442.46	405
MAY 07	1431.91	466
08	1427.28	567
09	1441.77	352
10	1443.85	643
11	1484.83	1134
MAY 14	Markets Closed	
15	1457.97	497
16	1461.79	311
17	1453.03	376
18	1448.62	397
MAY 21	1446.20	363
22	1451.20	6939 /a
23	1446.20	726
24	1434.68	472
25	1410.23	1068

a/ includes P6.57 billion block sale of Pure Foods to San Miguel Corporation

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Source: Philippine Stock Exchange

"UNDER-SPENDING" KEEPS FISCAL DEFICIT ON TRACK

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Government estimates for the January-April period showed total national government revenues short of the government's four-month target by P2.8 billion (1.5%). While not a large gap, this performance mainly reflected higher-than-targeted non-tax inflows (which surpassed the government's goal for the period by nearly P5 billion (17.9%). On the other hand, tax collections were off by P7.6 billion, which mainly reflected a P6.5 billion shortfall by the Bureau of Internal Revenue (BIR). Although weak tax administration remains a nagging problem, some indicators suggest that slowed economic growth also may have contributed to the BIR's "under-performance".

Actual disbursements for the first four months of the year were P13 billion below the programmed level. Government budget officials told the Embassy that this partly reflected an over-estimation of the first-quarter disbursement plan. The lower-than-programmed outlays contained the four-month fiscal deficit to P28.1 billion, well within the P38.3 billion ceiling programmed for that period. It remains to be seen, however, if "underspending" can continue to offset persistent revenue shortfalls as the year progresses. The 2001 disbursement plan is tight, with about 95% of the programmed year-on-year increase earmarked for "non-discretionary" budget items (i.e., personnel costs, transfers to local government units and debt servicing). This leaves limited room for fiscal maneuvering without sacrificing essential infrastructure investments and social development objectives.

NATIONAL GOVERNMENT CASH BUDGET PERFORMANCE
January – February 2001

(In Billion Pesos)

	Full-Year	January - April		
	Program	Prog.	Actual	Diff.
REVENUES	568.2	190.3	187.5	(2.8)
BIR	408.1	145.2	138.7	(6.5)
Customs	105.1	29.9	28.8	(1.1)
Treasury	20.0	5.7	8.8	3.2
Other Offices	35.1	9.5	11.1	1.6
Privatization	7.0	0	0.2	0.2
Fees/Charges	21.2	7.3	8.6	1.3
EXPENDITURES	713.2	228.6	235.6	(13.0)
SURPLUS/(DEFICIT)	(145.0)	(38.3)	(28.1)	10.6

Source: Bureau of Treasury

GOP TO CANCEL BANKING SECTOR REFORM LOAN

Department of Finance (DOF) officials confirmed press reports that the Philippine government planned to cancel the remaining $200 million balance of a Banking Sector Reform Loan (BSRL) from the World Bank (WB). The government stands to forego another $200 million in co-financing from the Japan Bank for International Cooperation (JBIC). The government has drawn only $200 million from the $600 million WB-JBIC facility to-date.

The BSRL went into effect in December 1998 and should have closed in June 2000. The loan was extended by a year to June 2001 to allow the government more time to meet loan "conditionalities" to strengthen the banking system (with the rehabilitation of the partly government-owned Philippine National Bank and legislative amendments to the Bangko Sentral charter among the key objectives). These reforms remain pending to-date and DOF officials think it unlikely that the reform commitments will be met by the extended deadline. Meanwhile, another extension would mean shelling out more funds for commitment fees (on top of the P45 million or so already paid).

The government's 2001 foreign borrowing program included a $200 million draw-down from the BSRL facility within the year –- premised (until the government's recent change of heart) on earlier plans to apply for another loan extension. DOF officials said the government planned to negotiate with the World Bank for a "Public Sector Reform Loan" instead (PSRL, which reportedly would include reforms in government procurement policies and processes). From a broader perspective, the government hopes to finance the 2001 budget at the least cost by drawing nearly $1 billion from already-committed official development assistance (ODA) funds. The success of that strategy will depend heavily on the ability to deliver on unfinished reforms which have already suffered delays (including restructuring the power sector).

NON-PERFORMING LOANS HIT NEW HIGH

The commercial banking system's ratio of non-performing loans (NPLs) –- which inched up during the first two months of the year -– hit a new high of 16.7% in March. Before February 2001 (16.6%), the NPL ratio was highest in November 2000 (16.3%). On a positive note, the nominal level of NPLs declined somewhat (by 0.2% or P299 million) month-on-month. However, total loan portfolio (inclusive of inter-bank credits) declined at a faster pace (by 0.6% or P9.4 billion). Including inter-bank credits, aggregate loans expanded by 0.7% year-on-year; and, excluding inter-bank transactions, by 5.5% from the March 2000 level.

Restructured loans (without which NPL ratios would be higher) increased by 0.8% (P746 million) from the February 2001 level. As of end-March, restructured accounts equaled 6.4% of commercial banks' outstanding loans –- about the same as February but up from March 2000's 5.1% ratio. Foreclosed assets grew by 0.8% (P1.1 billion) month-on-month and equaled 4.6% of commercial banking system assets (stable at the February 2001 ratio). During March, banks beefed up loan loss reserves to a level equivalent to 42.8% of NPLs –- somewhat higher than at the end of February (42.5%), but lower than the 44% coverage ratio as of March 2000.

Bankers doubt that NPL ratios have peaked, noting that businesses are struggling with both weaker export and domestic markets. Credit expansion also is likely to remain modest. Saddled with NPLs and foreclosed assets (equivalent to 13.3% of total assets as of the first quarter), banks remain cautious lenders, while weaker economic growth prospects this year spell conservative credit demand.

COMMERCIAL BANKS – SELECTED INDICATORS

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	2 0 0 1 March	2 0 0 1 February	2000 March
In Billion Pesos			
Total Loan Portfolio (TLP) a/	1,539.7	1,549.1	1,529.1
Non-Performing Loans (NPL)	256.9	257.5	215.1

Loan Loss Reserves (LLR)	109.9	109.4	94.7
Restructured Loans (RL)	99.2	98.4	78.7
Foreclosed Assets (FA) b/	135.5	134.4	105.2
Non-Performing Assets (NPA) c/	392.5	391.9	320.3
Total Assets (TA)	2,950.0	2,943.4	2,682.3

Selected Ratios (%)

NPL/TLP	16.69	16.62	14.06
LLR/NPL	42.78	42.29	44.01
LLR/TLP	7.14	7.06	6.19
RL/TLP	6.44	6.35	5.14
FA/TA	4.59	4.57	3.92
NPA/TA	13.30	13.31	11.94

a/ Includes inter-bank credits
b/ Gross of allowance for probable losses
c/ Sum of NPLs and foreclosed assets

Source: Bangko Sentral ng Pilipinas

PHILIPPINE NATIONAL BANK UPDATE

In a first-quarter consolidated income statement submitted to the Philippine Stock Exchange, the Philippine National Bank (PNB) reported a first-quarter net loss of P2 billion. Interest expenses (P3.3 billion) exceeded interest income (P3 billion), yielding a net interest loss of P298 million. PNB officials said that the first-quarter interest outlays included some P800 million paid to the Bangko Sentral and Philippine Deposit Insurance Corp. (PDIC) for P25 billion in emergency loans drawn last October. About P540 billion in loan loss provisions also ate into PNB’s bottom line. Meanwhile, a recently-concluded audit by PriceWaterhouseCoopers has not been made public -- although a number of press articles suggested a NPL ratio of around 50% and a book value of about P40/share. PNB’s published NPL ratio as of the first quarter was 40%, while its par value is currently set at P60/share.

Department of Finance (DOF) officials indicated that the government (which presently holds a 16% stake in PNB) would negotiate for a reduction in par value under a debt-to-equity (“reverse privatization”) scheme involving part of the BSP’s and PDIC’s P25-billion emergency loan. The swap plan is expected to help strengthen PNB’s balance sheet and pave the way for its rehabilitation while the government waits for improved conditions for a sale to a strategic buyer. The government views the swap deal as an alternative to earlier plans for a joint sale with majority-owner Lucio Tan (considering the currently depressed market situation and PNB’s financial condition). Of the 45 commercial banks in operation, PNB ranks sixth in terms of assets and accounts for 6% of the commercial banking system’s total resources. Although the banking system has thus far avoided systemic problems, protracted troubles in a major commercial bank such as PNB nevertheless poses potential risk.